

Summary of Decoupling Actions by Montana Public Service Commission

Energy and Telecommunication Interim Committee (Jan. 16, 2018)

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Introduction

Beginning with adoption of a Montana Power Company decoupling proposal in 1994, the Public Service Commission has considered and/or approved several utility proposals to implement decoupling.

The Commission approved an electric decoupling mechanism for NorthWestern Energy in 2011, but the mechanism was challenged in district court and ultimately dropped. More recently, the Commission requested information in a NorthWestern docket concerning lost revenue adjustment mechanism and another regarding natural gas rates, but NorthWestern did not request decoupling in either case.

In NorthWestern's pending natural gas rate case, the Commission has directed parties to address a decoupling provision to the utility's gas production assets. Parties are briefing on the issue, and a Commission decision is expected in February.

In recent natural gas rate cases, Montana-Dakota Utilities proposed specific decoupling measures, but they were not included in stipulations negotiated between parties and the Commission did not have opportunity to evaluate the proposals in detail.

In another pending natural gas rate case, Energy West Montana has not proposed decoupling.

Significant Decoupling Proceedings

1) Montana Power Company decoupling experience (1994-1996)

- D93.6.24 (MPC electric and gas rate case) Order No. 5709d (Apr. 28, 1994)
 - MPC proposes decoupling to address "lost revenue problem" (from energy efficiency programs).
 - o Weather normalized and economic index used.
 - o Adjustment band: - 1% to +4% revenue changes.
 - Stipulation for decoupling: MPC, Montana Consumer Counsel, Human Resources Council, Northern Plains Resource Council, Montana Environmental Information Center, DNRC, Natural Resources Defense Council; Large Customer Group did not sign.

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- Features: 4-year trial period; annual reports; regular meetings of least-cost planning advisory committee; stringent evaluation of decoupling.
 - Large Customer Group opposes; economic downturn/lower consumption would increase rates, but utility spared from hardship; no evidence of relationship between success of utility conservation programs and recovery of lost revenues.
- D95.6.27 (MPC Decoupling Compliance re: D93.6.24) Order No. 5858a (Sep. 20, 1995)
 - Continues 4-year decoupling experiment; no adjustments in 1995 or 1996; MPC to present alternative index before year-3 analysis period.
 - MPC proposes positive adjustment of \$2.25 million, including 1) basic decoupling calculation; 2) adjust for shutdown of large load (Golden Sunlight Mine); 3) adjust for higher-than-forecast growth.
 - LCG and MCC: MPC did not comply with stipulation.
 - HRC/NRDC/MEIC: MPC proposal exceeds stipulation understanding.
 - N96.4.68 (MPC Extension of Time for Alternative Decoupling Index) (May 29, 1996)
 - Commission: grants MPC extension of time to file alternative index
 - Progress delayed, then rendered moot, by deregulation issue and legislation.

2) NorthWestern Energy decoupling-related dockets

- D2009.9.129 (NWE electric & gas rate case) Final Order No. 7046h and Order No. 7046i (on remand from Montana District Court) (Jun. 30, 2011)
 - HRC/NRDC proposal: decoupling pilot (elect. and gas).
 - NRDC testimony: 17 states natural gas decoupling, 13 states electricity.
 - NWE and customers would share economic benefits of EE programs.
 - MCC testimony: oppose decoupling.
 - Decoupling could weaken incentives of fixed rates.
 - Decoupling adjusts rates outside of normal rate case setting, where all utilities costs are considered.
 - Decoupling transfers sales level risks from company to customers.
 - Final Order: approves decoupling pilot (4-year pilot, per-customer revenue requirement, residential and small general service customers, adjustment cap of 2.5%, electricity only, weather-normalized, reduce NWE return on equity from 10.25% to 10.00%.
 - Order on District Court remand: based on settlement among appealing parties, decoupling mechanism is dropped.

- D2016.9.68 (NWE natural gas rate case) Final Order No. 7522g (Aug. 15, 2017)
 - In procedural guidance, Commission explicitly defines how a decoupling proposal would be considered, but no proposal is made by NWE or others.
 - When questioned by Commission why no decoupling proposal was proposed, NWE responds that, in working for a stipulation with parties in the docket, NWE judged that a decoupling provision would not be achievable.
 - Expressing concern about potential financial windfalls to either company or customers due to fluctuations in weather, the Commission identifies the decoupling of natural gas production assets as a ratemaking approach and pursues the topic at hearing. The Commission is expected to rule on this issue in February (as part of Phase II of this docket).

3) Commission-sponsored public roundtable on decoupling

- Supreme Court Chambers, Oct. 28, 2016.
- Numerous panelists and broad stakeholder participation.

4) Lost Revenue Adjustment Mechanism ("LRAM")

(Note: LRAM allows for rate adjustments only in an upward direction, while decoupling allows for rate adjustments in either direction. LRAM and decoupling are not synonymous, but have been jointly considered in various Commission dockets.)

- D2003.6.77 (Electric supply tracker filing) Final Order No. 6496f (Dec. 15, 2005)
 - Commission approves LRAM to allow NWE to recover revenue not gained as result of utility's execution of energy conservation programs.
- D2014.6.53 (NWE LRAM mechanism) Final Order No. 7375a (Oct. 15, 2015)
 - Commission discontinues NWE's LRAM rate mechanism.
 - Commission makes numerous inquiries to NWE about decoupling details, but neither NWE nor other party proposes decoupling.
 - "[I]n order to simplify and expedite any future proceedings," the Commission requests additional testimony on specific decoupling issues:
 - o The particular types of assets that decoupling should be applied to;
 - o Whether decoupling should be "full" or "partial";
 - o Whether a per-customer or total revenue true-up method is preferable;
 - o Whether an economic adjustment factor should be included;
 - o Whether the filing of periodic general rate cases should be required.
 - In its order, the Commission directed NWE to address the above issues in any future decoupling proposal.